

**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 26, 2004



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Ronald Gilbert, Lincoln County Judge/Executive

Honorable Shelby Lakes, Lincoln County Sheriff

Members of the Lincoln County Fiscal Court

The enclosed report prepared by Moore Stephens Potter, LLP, Certified Public Accountants, presents the Lincoln County Sheriff's Settlement - 2003 Taxes as of April 26, 2004.

We engaged Moore Stephens Potter, LLP to perform the financial audit of this statement. We worked closely with the firm during our report review process; Moore Stephens Potter, LLP evaluated the Lincoln County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 26, 2004

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LINCOLN COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 26, 2004

Moore Stephens Potter, LLP has completed the audit of the Sheriff's Settlement - 2003 Taxes for Lincoln County Sheriff as of April 26, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,676,400 for the districts for 2003 taxes, retaining commissions of \$140,107 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,511,752 to the districts for 2003 Taxes. Taxes of \$403 are due to the districts from the Sheriff and refunds of \$671 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Ronald Gilbert, Lincoln County Judge/Executive

Honorable Shelby Lakes, Lincoln County Sheriff

Members of the Lincoln County Fiscal Court

Independent Auditor's Report

We have audited the Lincoln County Sheriff's Settlement - 2003 Taxes as of April 26, 2004. This tax settlement is the responsibility of the Lincoln County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lincoln County Sheriff's taxes charged, credited, and paid as of April 26, 2004, in conformity with the modified cash basis of accounting.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Ronald Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

Moore Stephens Potter, LLP

Audit fieldwork completed -
November 30, 2004

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 26, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 499,376	\$ 930,568	\$ 2,029,378	\$ 706,563
Tangible Personal Property	22,090	43,385	89,759	75,198
Intangible Personal Property				43,223
Fire Protection	968			
Increases Through Exonerations	321	632	1,305	1,670
Franchise Corporation	60,643	124,937	244,272	
Additional Billings	1,531	3,003	6,224	2,167
Additional Billings - Prior Year	221	429	894	315
Oil and Gas Property Taxes	106	209	431	150
Penalties	4,257	8,078	17,282	6,352
Adjusted to Sheriff's Receipt	(101)	(167)	(397)	(1,004)
Gross Chargeable to Sheriff	<u>\$ 589,412</u>	<u>\$ 1,111,074</u>	<u>\$ 2,389,148</u>	<u>\$ 834,634</u>
<u>Credits</u>				
Exonerations	\$ 4,845	\$ 8,861	\$ 19,672	\$ 7,830
Exonerations - Prior Year	122	235	497	157
Discounts	6,634	12,305	26,910	10,696
Delinquents:				
Real Estate	16,919	32,320	68,684	23,914
Tangible Personal Property	91	182	372	396
Real Estate - Prior Year	72	137	291	105
Uncollected Franchise	917	1,361	3,343	
Total Credits	<u>\$ 29,600</u>	<u>\$ 55,401</u>	<u>\$ 119,769</u>	<u>\$ 43,098</u>
Taxes Collected	\$ 559,812	\$ 1,055,673	\$ 2,269,379	\$ 791,536
Less: Commissions *	<u>24,038</u>	<u>37,349</u>	<u>44,794</u>	<u>33,926</u>
Taxes Due	\$ 535,774	\$ 1,018,324	\$ 2,224,585	\$ 757,610
Taxes Paid	532,328	1,012,880	2,210,147	756,397
Refunds (Current and Prior Year)	<u>3,740</u>	<u>5,538</u>	<u>14,066</u>	<u>1,465</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (294)</u>	<u>\$ (94)</u>	<u>\$ 372</u>	<u>\$ (252)</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

LINCOLN COUNTY
 SHELBY LAKES, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2003 TAXES
 April 26, 2004
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,944,062
4% on	\$	536,012
2% on	\$	674,762
1.5% on	\$	1,298,797
1% on	\$	212,767

** Special Taxing Districts:

Library District	\$	8
Health District		7
Extension District		9
Ambulance District		7
Fire District		<u>(125)</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(94)</u></u>
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LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT

April 26, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 26, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LINCOLN COUNTY
NOTES TO FINANCIAL STATEMENT
April 26, 2004
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2003 through April 26, 2004.

Note 4. Interest Income

The Lincoln County Sheriff earned \$2,125 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of November 30, 2004, the school district owed \$26 in interest to the Sheriff.

Note 5. Sheriff's 10% Add-On Fee

The Lincoln County Sheriff collected \$28,695 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lincoln County Sheriff collected \$1,509 of advertising costs and \$1,305 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of November 30, 2004, the Sheriff owed \$1,509 in advertising costs to the county. The advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2003 taxes, the Sheriff had \$1,792 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

LINCOLN COUNTY
SHELBY LAKES, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of April 26, 2004

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We recognize that the segregation of duties is a judgment established by management. We also recognize that this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and budgetary constraints. Due to the limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. However, we believe the reportable condition described above is not a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations. In order to offset this internal weakness, the Sheriff should have assigned duties to another deputy/employee. Duties that should have been segregated include preparing deposits, reconciling bank statements, opening mail, and preparing and distributing checks. The other deputy/employee should have documented performing these duties by initialing and dating documentation.

Sheriff's Response:

Not enough staff to comply.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has been repeated in the current year audit.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MOORE STEPHENS POTTER LLP

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS ADVISORS

The Honorable Ronald Gilbert, Lincoln County Judge/Executive
Honorable Shelby Lakes, Lincoln County Sheriff
Members of the Lincoln County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lincoln County Sheriff's Settlement - 2003 Taxes as of April 26, 2004, and have issued our report thereon dated November 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lincoln County Sheriff's Settlement - 2003 Taxes as of April 26, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lincoln County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Lincoln County, Kentucky, and the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Moore Stephens Potter, LLP". The signature is written in a cursive, flowing style.

Moore Stephens Potter, LLP

Audit fieldwork completed -
November 30, 2004

